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By

DAVID M. FIGART

(Special Agent of the Department of Commerce of the United States in 1923 and 1924, and author of the report entitled "The Plantation Rubber Industry in the Middle East.")

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"I shall try to correct errors where shown to be errors, and I shall accept new views as far as they appear to be true views."

—*Lincoln's letter to Horace Greeley.*

366 Madison Avenue, New York
May 5, 1926.

June 19, 1930 DA

AMERICA AND RUBBER RESTRICTION

Restriction has taken on a new lease of life. If the price of rubber averages below 1s 9d (about 42 cents) for the quarter beginning May 1, 1926, the quantity of rubber which may be exported from British Colonies at the minimum duty will be reduced from 100 per cent of Standard Production, as at present, to 80 per cent. This is a drastic change from the former conditions, under which there would have been 10 per cent additional releases, instead of a decrease, so long as the price averaged above 1s 6d (36 cents), and 5 per cent additional releases when the price averaged between 1s 3d (30 cents) and 1s 6d.

The departure from the rules on February 1, 1926, created a precedent under which any change can henceforth be made at any time. From the consumer's point of view, this action produces a serious situation. At this time, many manufacturers have high-priced rubber on hand constituting a grave danger to profits in 1926. Within a year the price of rubber has fluctuated between 45 cents and $1.23 a pound for a commodity which costs less than 25 cents a pound to land in consuming markets. The new rules laid down for continuing the operation of the Stevenson Plan, make probable a repetition of 1925 conditions, but in more aggravated form. Under the Stevenson Plan as formerly drawn, or as at present modified, there is no means of escaping the violent fluctuations in the price of rubber which are a constant menace to the existence, not to say prosperity, of our manufacturers.

The policy of Restriction has stirred up endless argument. The authors of the Stevenson Plan say that America is responsible for the failure of the scheme to function as intended. Members of the British Government echo these sentiments. But a portion of the American people feel that the British Government has initiated legislation—presumably to effect stabilization—which

rather has resulted in startling advances in the cost of a necessary raw material controlled by Britain. As the greatest protectionist nation in the world, America is reproached for objecting to legislation instituted to salvage, as is claimed by the British, an industry on the verge of bankruptcy. We are reminded that producers should not be expected to sell rubber at a loss.

An unbiased evaluation of the evidence on which Restriction was based and is maintained should be attempted. That something has gone wrong is apparent to all. That someone is responsible logically follows. It might be well to review the history of Restriction in an endeavor to locate its weaknesses.

I.

Historical Events Leading Up to Restriction.

In the boom of 1910, with the price of rubber going temporarily to over $3.00 a pound, the planting of large acreages in the East was stimulated. As it takes from four to six years for a rubber tree to reach the tapping stage, and roughly ten years to approximate its maximum yield, the effect of the heavy planting of 1910, 1911 and 1912 was not felt until about ten years later, when the potential output temporarily exceeded the demand, and brought on the 1921-1922 depression in the planting industry. Contributing factors were the interruption of European automotive development by the war, the worldwide industrial depression, and, particularly, the introduction of the cord tire.

Many years of high prices had engendered a false sense of security among planters. The large profits earned were for the most part either paid out in dividends or reinvested in extensions to the planted area; there was, generally speaking, no such thing as liquid reserves; so that when the low prices of 1921 and 1922 struck the industry, it was in poor shape to weather a depression.

It is important to bear in mind three points in connection with the situation that followed. First, producers themselves depressed prices by forcing on a market already demoralized by trade conditions supplies which were not then wanted. Second, if a rubber estate ceases tapping for a period, the trees improve. Except on the very youngest areas, practically no upkeep is necessary. Native growers in Netherlands India have amply demonstrated this. Third, while most estates were obliged to forego profits for a short period, in few instances, if any, was the cash outlay necessary to harvest the rubber greater for any length of time than the selling price obtainable. It cannot be too strongly emphasized that the depression brought about wholesale changes in planting and production methods. Labor forces were cut roughly in half; superintendence was reduced; alternate-day and periodic tapping replaced daily tapping, and on all sides drastic and permanent economies were effected.

Meanwhile, the Rubber Growers Association, London, succeeded in securing adherence to a scheme for voluntary restriction of production, which met with considerable success; but in 1922 certain producers, feeling that conditions were improving, announced their withdrawal from the voluntary scheme; and a movement for Government intervention arose, which resulted in the appointment by the Colonial Office of the Stevenson Committee.

Some extracts from the June, 1922, report of the Stevenson Committee are of interest. In this report the Committee recognized "the grave objections to Government interference with industry, especially when it takes the form of restricting the output of an important raw material." Further, "The Committee desire to put on record that at the outset of their enquiry, they formed and have never departed from the conviction that it was impossible to deal with the problem as one affecting only the British Colonies and Dependencies in which rubber is pro-

duced. They recognized from the first that no scheme of restriction, whether voluntary or compulsory, could usefully be applied in Malaya unless it was simultaneously applied in other countries in which there is production of rubber on a large scale. This conviction formed the basis of the Committee's deliberations, and, in particular, they have throughout kept in view the fact that no scheme, however excellent in itself, could properly be recommended . . . for adoption unless it commended itself to the Authorities of the Dutch East Indies. . . . If it is to be effective and not to injure one producing country to the advantage of others, (it) must be applied simultaneously in all the chief producing countries, viz., Malaya, Netherlands East Indies and Ceylon."

Now the Dutch were in a peculiar position. There were many native rubber holdings in both Malaya and Netherlands India; but in Malaya these were registered in the land offices, whereas in Netherlands India there were no records whatever of the land occupied by the natives. Consequently, there was no way in which the Dutch authorities could enforce restriction. Moreover, both the Dutch Government and Dutch commercial interests generally were opposed to intervention.

Notwithstanding the definite refusal of the Dutch to cooperate, the Stevenson Committee reopened the question on the grounds of—

(1) Excessive and increasing production of rubber;

(2) "The general demand by the leaders of the rubber industry both in London and in Malaya for restrictive measures . . ."

(3) Latest available estimates on production, absorption and stocks.

As a result of the modified recommendations of the Committee, Restriction came into effect November 1, 1922.

II.

Was Restriction Necessary?

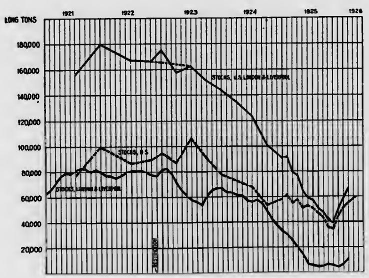
Most discussions of Restriction start from the premise that it was necessary to save the plantation industry from disaster. A calm survey of the facts throws considerable doubt on this assumption. There can be no question of the great distress in the industry, especially among discharged planters and laborers; and of the cessation of dividends by the majority of companies; but while the evidence of improved conditions in 1922 may have seemed inadequate and unconvincing to most people, there were substantial grounds for believing that Government intervention was not required.

In the first place, take the figures of the Stevenson Committee' Reports. Note that the date of their second report was October, 1922. Nine months of the year had passed, and there were already figures available indicating that world absorption of rubber for that year might reach 400,000 tons. Yet the Committee said: "Notwithstanding the fact that the rate of the world's absorption of rubber for the present year shows a substantial increase on the Committee's previous figure of 300,000 tons, they have decided to base their recommendations on the figure of absorption mentioned in their previous report, in order that they may err on the safe side."

Now the Committee had estimated an unwanted surplus of rubber amounting to 110,000 tons, by deducting from total world stocks, estimated at 310,000 tons, a normal working stock of 200,000 tons, which they calculated at eight months' supply, based on their estimated consumption of 300,000 tons. As consumption in 1922 was over 400,000 tons (according to a number of leading authorities) a normal working stock, at eight months' supply, was about 270,000 tons; and considering that world stocks

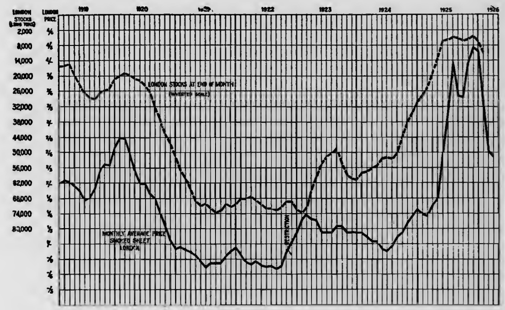
were somewhat less at the end of 1922 than at the beginning, the unwanted surplus was actually about 30,000 tons instead of 110,000 tons—a position by no means serious.

In the second place, production in 1922 was less than consumption—not much less, but enough to show that the turn in the market had come. This is further evidenced by the decline in stocks in the United States and the United Kingdom, shown on the following diagram. The increase in stocks in December, 1922, was undoubtedly due to pre-Restriction stocks, including some wet rubber, which was rushed out of Malaya in October to escape the export duty imposed as from November 1. Consequently, this increase is abnormal. It will be seen that the trend in stocks from December, 1921, ten months before Restriction, is distinctly downward.



Again, there was a steady recovery in price beginning in August, 1922. It might be argued that this was due to the rumors of impending restriction; this is possible, but it is significant that prior to Restriction, rising prices invariably accompanied falling stocks, and falling prices accompanied rising stocks.

This is shown by the way the two lines run parallel on the diagram below, on which, to facilitate comparison, stocks were plotted on an inverted scale. When Restriction came into force, however, the price trend reversed its previous history; and for over a year and a half we witnessed the strange phenomenon of falling prices accompanying falling stocks.



It may be held that the large potential output in succeeding years was alone sufficient to warrant Restriction. It may have appeared so; but in the light of the situation then existing, the labor conditions, new tapping methods, and other causes operating to reduce yield, it seems fairly certain now—as it did then—that the estimated potential yields neither would nor could have been produced. If one compares conservative figures of what output might have been without Restriction, and what consumption might have been had ample rubber at moderate prices been available in 1925, thus obviating the necessity for substituting wild rubber, guayule, and reclaimed, the result will show that the planting industry would have prospered without the Stevenson Plan.

Finally, (lest we be accused of "hindsight") many responsible and able men were opposed to Restriction when it was recommended in October, 1922. We know that fundamentally the Government officials of Ceylon and Malaya had been opposed to it. Mr. Churchill himself had announced his opposition some time previously. In Malaya, where the distress would be most apparent to all and where it would react on all lines of business, the Singapore Chamber of Commerce voted against Restriction. The heads of three leading commercial houses, themselves agents for rubber estates, vigorously opposed Restriction in season and out. At the meeting of the Singapore Legislative Council, October 23, 1922, when the Government presented the Restriction Bill, one business member, while supporting the bill, hoped that it might be "quickly withdrawn." A second "deprecated any government intervention." A third "disapproved . . . because consumption is steadily increasing again . . . and a natural recovery in price would have gradually come about in the near future." A fourth said: "I was a member of the Duncan Committee in 1921 and at that time I was greatly in favor of restriction. But I think that conditions have materially changed since then, and my personal view is that it would be better to have left things alone." And in Ceylon it was reported that, because of the opposition of the unofficial members of the Legislative Council, the bill was passed during their absence.

One wonders whether some new factor, arising after the issue of the first report, may not have exerted the deciding influence in the spectacular passage of the Restriction measure during the last quarter of an hour of the first Baldwin Ministry.

No discussion of this question as to whether Restriction was or was not necessary would be complete without citing the consistent opposition of the influential London Times. For example, the Times, on September 19, 1922, before Restriction was imposed, said: "An equilibrium of supply and demand appears already to have been established." And on October 12, 1922, it said: "The scheme has been produced rather late in the day for, since the committee was appointed, the aspect of the rubber market has completely changed. The American demand has greatly exceeded expectations."

The London Daily Telegraph, of January 15, 1923, commented on the position as follows: "There can be few industries that have come through the world depression with so little loss as the rubber industry. Not a single rubber company has disappeared, and there have been fewer appeals for capital and less numerous reconstructions than in other industries of equal magnitude."

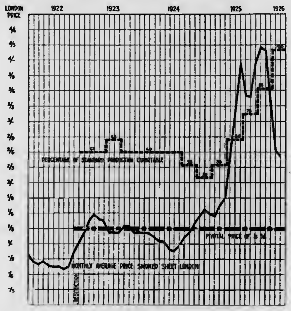
III.

The Structure of the Stevenson Scheme and Its Administration.

As the Scheme was founded on inaccurate statistical premises, as already pointed out, it follows that its structure would necessarily be faulty. For example, why did the Committee choose an initial basis of 60 per cent, instead of some other figure? And why were releases scheduled at 5 and 10 per cent, instead of at 3 and 6 per cent, or 10 and 20 per cent, or some other scale? Obviously because the Committee felt that the basis of releases adopted would automatically adjust supply to demand at remunerative and stable price levels.

A second grave fault in the Scheme, which was pointed out by American manufacturers and which has since been demonstrated, was the failure to provide any reservoir to absorb surplus production during absence of active demand, or to supply sudden increases in demand. Considering that seasonal buying was one of the most pronounced characteristics of the rubber market it is surprising that this question of a shock-absorbing reservoir did not receive more attention.

A third fault was the tardiness with which the Scheme operated. It is perhaps not generally realized that both in 1923 and in 1924 releases went in just the opposite direction to prices. This is illustrated in the diagram below, on which the broken line represents the percentage of Standard Production exportable each quarter under Restriction, while the heavy line shows the monthly average price of smoked sheet in London.



The above diagram shows that in 1923 when prices were falling, releases rose from 60 to 65 per cent; while in 1924 when prices were rising, releases fell in successive quarters from 60 to 55 per cent, and from 55 to 50 per cent.

This inelasticity showed itself in another way. To exercise a controlling influence on world supplies of rubber the Scheme must necessarily have provided for quick adjustment to outside factors. Thus, when the native output from Netherlands India showed such a rapid and unexpected increase, the output from British areas should have been cut down with equal rapidity, else the equilibrium intended to be established by the Scheme would be overthrown—as in fact occurred. The reverse conditions existed in 1925, where rapidly increasing consumption, due to the almost

overnight popularity of the balloon tire, as well as the unexpected heavy demand for motor cars, were the upsetting factors. In the Annual Report of the Rubber Growers Association, London, submitted on April 29, 1925, occurs the following: "Now that a surplus stock of crude rubber no longer exists it should be more widely appreciated that the manufacturers, who are the ultimate buyers, have it in their own hands to ensure export releases on the scale which is necessary to meet their requirements, provided they exercise reasonable foresight." How untenable this position was is shown by the fact that even as the statement was published, the Scheme was functioning at its maximum speed, but that did not prevent rubber from going to 4s 8d, nor did it "ensure export releases . . . necessary to meet . . . requirements."

A misunderstanding may be cleared up at this point. References have been made—and these by responsible and well-informed men—to the difficulty of repealing legislation once enacted, the thought being that legislative obstacles prevented emergency releases last year when prices were soaring and when there was an acute shortage of spot rubber. There is not now, nor has there ever been, legislation governing the percentage of release under the Stevenson Scheme. The general plan is embodied in legislation; details, such as the fixing of percentages, have been provided for in rules made by the various colonial and territorial administrators, which can be changed at any time. Alterations in the exportable percentage are always made under recommendations cabled from the Colonial Office, London, which is aided by an Advisory Committee "charged with the responsibility of advising him (the Secretary of State for the Colonies) as to the alterations in the rate of minimum duty required under the scheme."

Now the Stevenson Plan was admittedly designed for the two-fold purpose of working off a surplus and of stabilizing

prices. On the latter point, the first Stevenson Report, June, 1922, said: "In arriving at this formula the Committee had most prominently in view the desirability of taking no steps which would be liable to prejudice the legitimate development and expansion of the uses of rubber . . . Manufacturers of rubber goods should be able to obtain their supplies of crude rubber at a reasonable price with much less risk of the violent fluctuations which have been such a drawback in the past . . ." But it is clear that the working of restriction—and, consequently, the stabilizing of prices—was intended to be entirely automatic; for not only did the Plan provide for gradual increases in the percentage of release as price moved up, but—and this is very significant —it provided for gradual decreases in the event that the price moved down. The fact that members of the Stevenson Committee sold forward the product of their estates at prices ranging around 1s 6d before the spectacular rise of last year to 4s 8d is sufficient evidence of the good faith of the Committee and of their belief that the Plan would bring stability.

This is still further borne out by correspondence exchanged between the Rubber Association of America and the Rubber Growers Association, London. On November 9, 1922, the American Association sent a cable to the Rubber Growers in London, regretting that the invitation "prompted by a sincere desire for a better, broader, and more sympathetic understanding between growers and manufacturers," which had been extended for a committee of growers to visit America, had not been accepted. The Chairman of the Rubber Growers Association, in his acknowledgment of the cable, said they were "waiting for a short time to see how the scheme so lately introduced affects growers and manufacturers and all others concerned," which was the reason for their "hesitation in immediately accepting" the invitation. He further added that "the scheme ensures that there will be no violent changes in the market price of the raw material and no lack of supplies to meet all legitimate demands."

Then again, consumers' interests were undoubtedly consulted, in drawing up the Plan, to the extent that the price asked by the growers, viz., 1s 3d to 1s 6d (30 to 36 cents) was not excessive. It gave the British producers only a fair return on their investment. But so far as the working out of the Plan was concerned, consumers did not have an opportunity to present their views. As America takes nearly three-quarters of the world's supply of rubber, this was a most important consideration. The Rubber Association of America immediately registered a protest against the Plan, as a result of which a Committee representing the Rubber Growers Association of London came to America early in 1923 and visited all the important manufacturing centers. They were shown the astounding growth of the industry, and given estimates of requirements which they could not credit. There was some excuse for this, because our previous estimates had frequently proven inaccurate. In any event, the growers could not see their way clear to meet the wishes of their best customers, even to the extent of recommending measures for providing greater elasticity in the Plan, which would not necessarily have meant a lower selling price. And at the meeting of the Rubber Growers Association held to consider the report of these delegates, a resolution was passed to the effect that "any attempt to meet a hypothetical position which may not arise is undesirable."

Two points of particular interest arise out of this: First, the supposed automatic feature of the Plan, which cannot be too strongly emphasized, for at a later date the responsibility for the violent price fluctuations was laid upon the Americans. One can search the Stevenson reports from cover to cover, and all the incidental matter which was published in connection therewith, without finding a single reference to the necessity for American co-operation in making the Plan a success. Had the need for such co-operation been foreseen by the authors of the Plan, one would

have thought that some reference thereto would occur; the attention of American manufacturers would have been drawn to the plan and their suggestions asked before it was adopted; or some clause in the Plan would have pointed out that stability would result only if the Americans maintained prices above a certain level by buying rubber. One cannot honestly escape the conclusion that automatic stability was intended.

A well-known supporter of the Plan stated in a recent speech that "one of the chief merits of the Stevenson Scheme is its automatic functioning, and any errors of judgment arising out of it cannot be laid at the door, either of the Governments who administer the scheme, or of their advisers." "Automatic," according to Webster, means "self-acting or self-regulating." It is manifestly untenable to claim that an automatic device originated by the British needs constant attention and regulation by the Americans to render it automatic.

The second important point to be borne in mind is that our manufacturers never assented to the Plan or acquiesced in it in any way. They pointed out with emphasis the very faults which ultimately developed, and asked that the plan be modified to meet their objections. Had the Stevenson Committee brought about such modifications, it might be contended with some justice that American manufacturers had virtually become parties to the Plan; and if, then, the price had gone to unexpected heights, the Stevenson Committee could say to the American manufacturers: "We modified this scheme to meet your views; you are as much responsible for the way things have gone as we are." But the Americans explicitly repudiated the Plan as drawn.

The British, however, reply to this: "Here was the plan, drawn in plain English, published to the world for everyone to read. We wanted a fair price for our rubber; if you had paid it, we would have given you additional supplies designed to meet your requirements." On its face, this looks like an unanswerable

argument, and as such has been widely accepted without analysis. But when one examines it more closely, and reasons it through to its logical conclusion, an impossible position develops.

The British contention is that Restriction would have worked according to plan provided American manufacturers had regulated their buying policies by it. It is interesting to note, in passing, that such a policy involves the precise difficulties with which producers themselves felt unable to cope, and which led them to request Government intervention.

American manufacturers would have had to subscribe, willingly or otherwise, to legislation which they believed to be faulty in principle and form. They would have had to forecast production and consumption, in which the authors of the plan so signally failed. They would have had to lay in stocks when they had no need of them, and regardless of their financial position. In general they would have had to assume risks which might have involved untold losses. They would have had to merge their own competitive interests with those of dealers and brokers in combined buying, which is the only way to support prices at a given level; and they would have had to do this illegally, or secure a modification by Congress of our present laws.

Passing over the agitation in the British press when Mr. Hoover proposed that Congress should give manufacturers power to combine, the insuperable difficulties, even with such power, must be manifest to all. Such a scheme would mean that American manufacturers would have to provide a bottomless pit for all the rubber the world could ship them, either from new production or from old stocks, at a minimum price of 1s 3d—a one-sided arrangement which could lead only to disaster. It is submitted that no man can examine this proposition with an open mind and still maintain that the Americans could have made the Stevenson Plan succeed.

It would be well at this point, to bring out another fact which

has generally escaped notice. In the columns of reputable British journals the statement frequently has appeared that American manufacturers deliberately tried to break the Stevenson Plan by withdrawing from the market; when as an actual fact in June, 1923, eight months after Restriction came in, stocks in the United States were at the highest point in the history of our industry. But in spite of the fact that manufacturers had built up their stocks to unprecedented figures, the price of rubber continued falling under pressure of supplies from producers and dealers; and as large inventories and falling prices were responsible for such tremendous losses but two years before,—when American rubber manufacturers are reported to have lost in depreciated inventories half as much money as is invested in the entire British plantation industry—they were obliged to cut down stocks. Moreover, that they were entirely justified in so doing is clear from the purpose of the Plan, which said, in effect: "We will withhold rubber when you do not want it, and release it when you do." If, under Restriction, producers and dealers unload rubber on to America at declining prices, thereby depleting a very necessary working stock in the United Kingdom, how can America possibly prevent it? If holders of over 82,000 tons of stocks in London and Liverpool run these down to under 5,000 tons, forcing such stocks upon a declining market at prices below the figure the holders were instrumental in fixing as fair, how can America alone be expected to assume the burden of carrying the world's stocks, in addition to supplying her own requirements?

When the 1925 crisis arose and manufacturers required more rubber, whatever may be the reason that the British Government frowned on an emergency release, it cannot be laid either to the difficulty in altering legislation, when no legislation was involved, or to the neglect of responsibilities by America, when America had undertaken no responsibilities.

IV.

Effects of Restriction As Administered.

Under Restriction we have had more violent price fluctuations than since the boom of 1910, when the industry was in its infancy. If any one thing tends more than another to destroy confidence, endanger profits, and menace success, it is wide fluctuation in price. Our manufacturers are today faced with this problem and its possible effect on their 1926 balance sheets.

Reliable statistics show the increasing use of reclaimed rubber to be perhaps the most important factor in the rubber situation today.

The attitude of the public towards what they regard as legislative manipulation—and rightly so, for last year's shortage was a legislative shortage—has brought about a conservation movement, a "buyers' strike" of real moment, which may be extended or intensified according to the dictates of necessity.

New uses, in which producers have such a deep interest, have little chance for further development in a severely fluctuating market.

A basic principle of successful trade anywhere, the cultivation of friendly relations with one's customer, has been violated in the Stevenson Plan—although in fairness it should be said the outcome was unforeseen and unintentional.

The Stevenson Plan is far more effective as a protective measure for Dutch industry than it is as a British measure. Could a Dutch Colonial Administrator, seeking means to build up and protect a local plantation industry, devise anything nearly so effective as to have his competitors, who controlled world supplies, guarantee a minimum price for every pound of rubber his territories could produce? Or if the price fell below the minimum temporarily, these competitors would undertake to curtail their own shipments until the minimum price level was reestablished?

Without the Plan, British Colonies would have supplied their normal percentage of the world output, instead of dropping from 75 per cent in 1922 to 58 per cent in 1924 and 59 per cent in 1925; and, if we may judge from past history, this would have been done at steadily rising and remunerative prices.

Finally, America has been awakened to the realization that the present success and future progress of three of her greatest industries are imperilled through imprudent legislation, and she is compelled to take independent measures to safeguard her welfare.

America does not question the right of Britain to enact protective legislation for any industry which requires it; but she does question a form of legislation under which such violent price fluctuations are experienced and which creates an artificial shortage in a raw material of such vital importance to her industrial life.

The world faces a shortage of rubber within a few years. World stocks are today low. Yet, because we may see a further recession from inflated prices while normal stocks are being restored, the British Government proposes to curtail supplies in a more drastic manner than ever before. The situation is most serious.

In this article, an attempt has been made to give an unbiased picture of Restriction. If any errors have been made in deductions, if any incorrect figures have been employed, if any material evidence has been omitted, it has been unintentional. The information presented points to the conclusion that Restriction was unnecessary; that it was founded on error; that it was faulty in structure; that it has been, and will continue to be, a constant menace to consumers; that it was unwise, uneconomic; and that it is not now, never has been, and never can be, in its present form, workable.

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